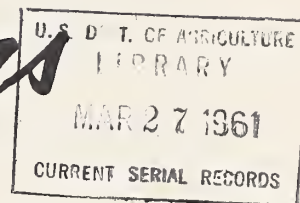


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Milk Distributors



Sales and Costs

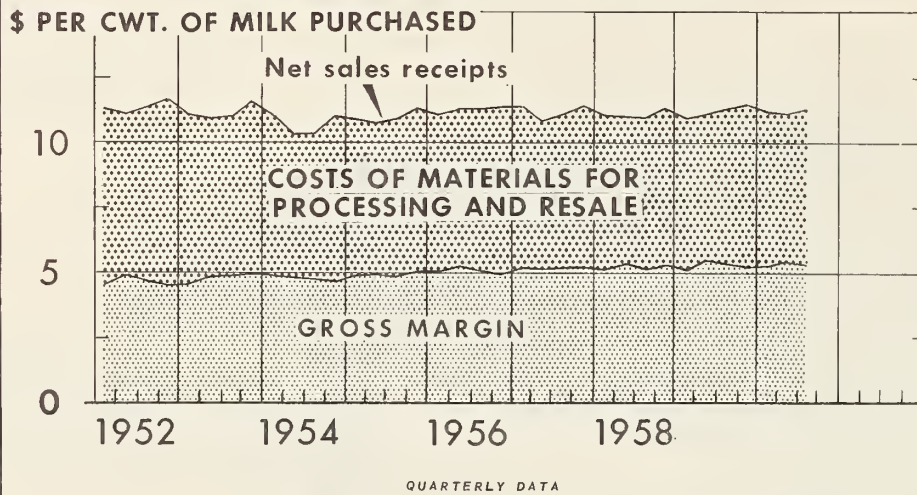
July-September 1960

MDSC No. 16

U. S. DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Marketing Economics Research Division

Fluid Milk Processing-Distributing Firms

NET SALES, COST OF MATERIALS, AND GROSS MARGIN



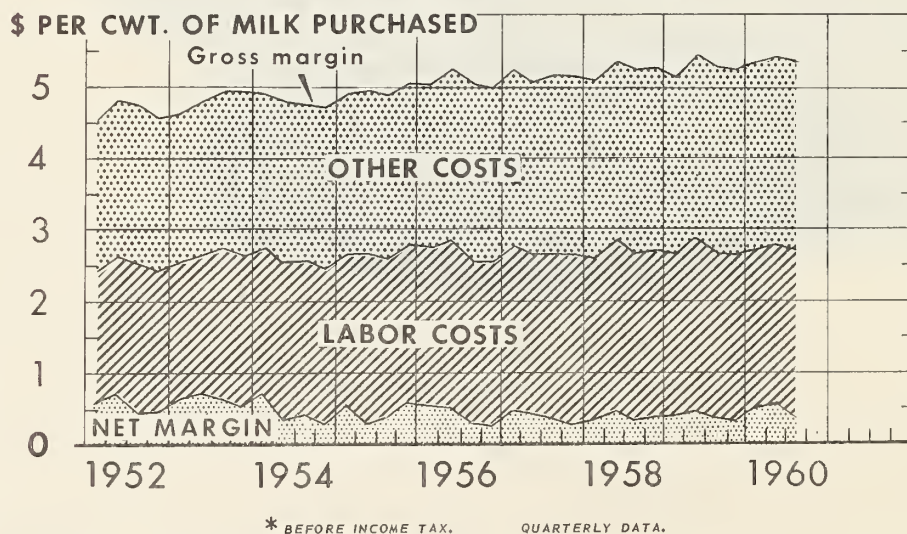
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Figure 1

Fluid Milk Processing-Distributing Firms

OPERATING COSTS



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Figure 2

MILK DISTRIBUTORS' SALES AND COSTS

July-September 1960

By D. D. MacPherson and Helen V. Smith
Marketing Economics Research Division
Agricultural Marketing Service

:
: This report is the current issue of a series based upon information :
: obtained from distributors of fluid milk and cream products. These :
: distributors are subscribers to a cost comparison service which :
: furnished the Department with tabular data for analysis. A uniform :
: accounting system is used, and information is given on standardized :
: forms. Data reported include: Costs and quantities of raw milk :
: and other raw materials; prices and quantities of products sold; :
: and operating costs. :
:
: The firms selected are privately owned, and chiefly single-plant :
: firms. In these characteristics they are considered to be typical. :
: Very small firms, very large firms, national chains, and producer- :
: distributors are not included. :
:

SALES AND COSTS

Milk distributors' sales, costs, and margins per 100 pounds of milk and cream processed in the July-September 1960 quarter were nearly identical with the corresponding quarter of 1959. The year-to-year changes were much smaller than the seasonal changes from the April-June quarter. The year-to-year changes were less than in most previous years. Net sales receipts were about 0.3 percent lower; cost of materials for processing and resales were about 0.2 percent lower.

Operating costs were up about 0.2 percent from a year earlier and net margin was down about 5 percent.

Net Sales Receipts

Net sales receipts per 100 pounds of milk and cream processed were \$11.23 in the July-September 1960 quarter, an increase of 6 cents from the previous quarter, but a decrease of 3 cents from July-September 1959. (Net sales receipts are gross receipts less discounts, allowances, and returns.)

January 1961

Table 1.--COSTS AND MARGINS FOR SELECTED DAIRY FIRMS: Per 100 pounds of milk and cream processed, for years 1952-59, and for the 5 most recent quarters

Account	Yearly average												1960			
	1952	1953	1954	1955	1956	1957	1958	1959	July- :Sept.	Oct.- :Dec.	Jan.- :Mar.	Apr.- :June	July- :Sept.			
	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.			
Net sales receipts 1/.....	11.32	11.12	10.69	10.95	11.22	11.15	11.05	11.16	11.26	11.34	11.19	11.17	11.23			
Cost of materials for processing and resale:																
Raw milk and cream....	5.85	5.43	5.07	5.12	5.39	5.23	5.13	5.10	5.01	5.30	5.16	4.88	5.03			
Other.....	.82	.86	.83	.89	.76	.77	.70	.80	.97	.82	.76	.89	.93			
Total.....	6.67	6.29	5.90	6.01	6.15	6.00	5.83	5.90	5.98	6.12	5.92	5.77	5.96			
Gross margins.....	4.65	4.83	4.79	4.94	5.03	5.15	5.22	5.26	5.28	5.22	5.27	5.40	5.27			
Operating costs:																
Salaries, wages, and Commissions 2/.....	2.15	2.19	2.21	2.28	2.43	2.50	2.56	2.61	2.65	2.61	2.63	2.64	2.64			
Containers.....	.60	.62	.65	.70	.72	.71	.70	.69	.68	.65	.66	.65	.67			
Operating supplies.....	.30	.32	.35	.32	.28	.29	.29	.29	.30	.30	.30	.30	.30			
Repairs, rent, and depreciation.....	.50	.52	.57	.60	.64	.67	.68	.67	.64	.69	.66	.65	.67			
Taxes.....	.06	.06	.06	.06	.05	.06	.06	.06	.06	.06	.06	.06	.06			
Insurance.....	.02	.02	.03	.04	.04	.04	.04	.04	.04	.04	.05	.05	.05			
Services.....	.16	.19	.19	.18	.17	.17	.17	.17	.20	.17	.16	.17	.20			
Advertising.....	.15	.15	.16	.18	.19	.18	.18	.18	.18	.18	.17	.18	.19			
General.....	.15	.13	.13	.14	.16	.15	.16	.16	.15	.18	.14	.15	.15			
Total.....	4.09	4.20	4.35	4.50	4.68	4.77	4.84	4.87	4.91	4.90	4.83	4.85	4.92			
Net margins 3/.....	.56	.63	.44	.44	.35	.38	.38	.39	.37	.32	.44	.55	.35			
Firms reporting.....	43	51	75	83	80	80	80	80	80	80	80	80	80			

1/ Gross sales receipts less discounts, allowances, and returns.

2/ Includes State unemployment, Federal old age, workmens' compensation, and employee benefits.

3/ Net returns to owners before income taxes.

Cost of Materials for Processing and Resale

Cost of materials for processing and resale was \$5.96, a seasonal increase of 19 cents from the previous quarter. The cost of raw milk and cream increased 15 cents (from \$4.88 to \$5.03) and the cost of other materials for processing and resale increased 4 cents (from 89 cents to 93 cents). Total cost of materials for processing and resale was 2 cents less than a year earlier.

Gross margin for milk distributors--net sales receipts less cost of materials for processing and resale--was \$5.27, down 1 cent from a year earlier. As a percent of sales, gross margin for July-September quarters was 47.8 percent in 1958, 46.9 percent in 1959, and also 46.9 percent in 1960.

Operating Costs

Operating costs were \$4.92 per 100 pounds of milk and cream processed during July-September 1960--7 cents higher than the previous quarter and 1 cent higher than a year earlier.

The quarter-to-quarter change resulted from increases of 2 cents for containers, 2 cents for rent, repairs, and depreciation, 3 cents for purchased services, 1 cent for advertising, and a decrease of 1 cent for general expenses. The year-to-year change resulted from mixed factors: Costs for containers, for general expenses, and for salaries, wages, and commissions each decreased 1 cent while repairs, rent, and depreciation increased 3 cents and advertising increased 1 cent.

Net margin--the amount available for payment of income taxes and return on investment--was 35 cents per 100 pounds of milk and cream processed. The decrease of 20 cents from the April-June quarter was seasonal but somewhat larger than in most earlier years. The year-to-year decrease of 2 cents resulted from the decrease of 1 cent in gross margin and the increase of 1 cent in operating costs.

PERSONNEL COSTS AND LABOR EFFICIENCY

Personnel costs per 100 pounds of milk processed in fluid milk plants increased during the 5-year period July 1955-June 1960. More efficient use of labor has not been sufficient to offset higher hourly earnings for labor. Although total personnel time, per 100 pounds of milk processed, decreased from 67.5 minutes in July 1955-June 1956 (fig. 3) to 58.9 minutes in July 1959-June 1960, personnel cost increased from \$2.09 to \$2.30 per 100 pounds during this period (fig. 4). This cost does not include social security, workmen's compensation, unemployment insurance, etc., which collectively add about 15 percent to the personnel costs.

Hourly earnings have gone up for all categories of personnel, but by varying rates: Fieldmen, 19 percent; plant employees, 35 percent; deliverymen,

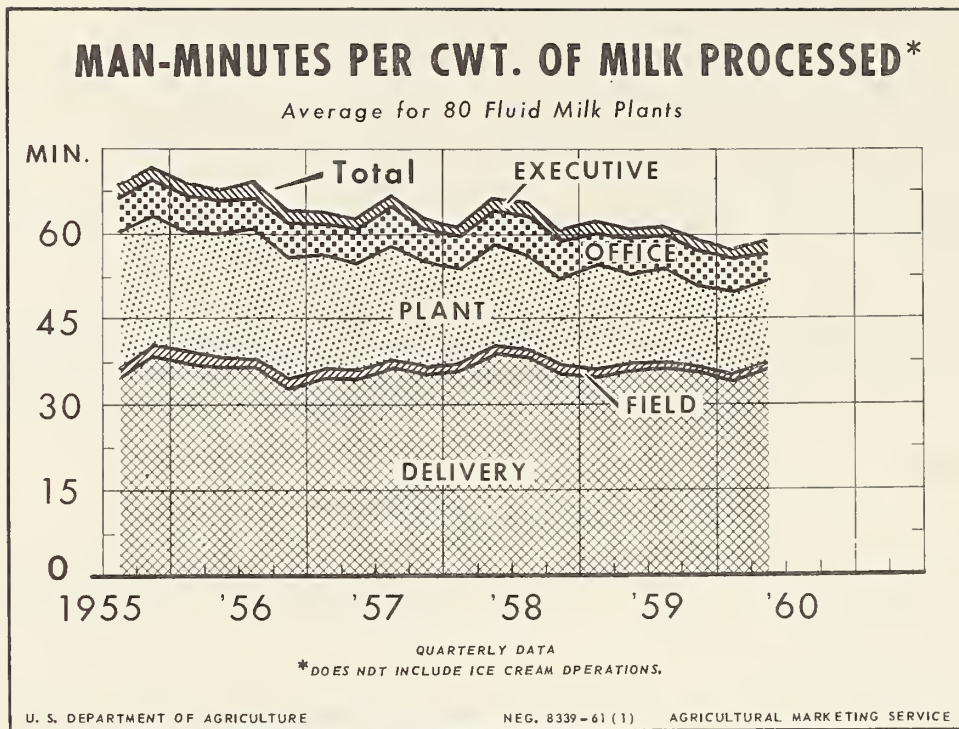


Figure 3

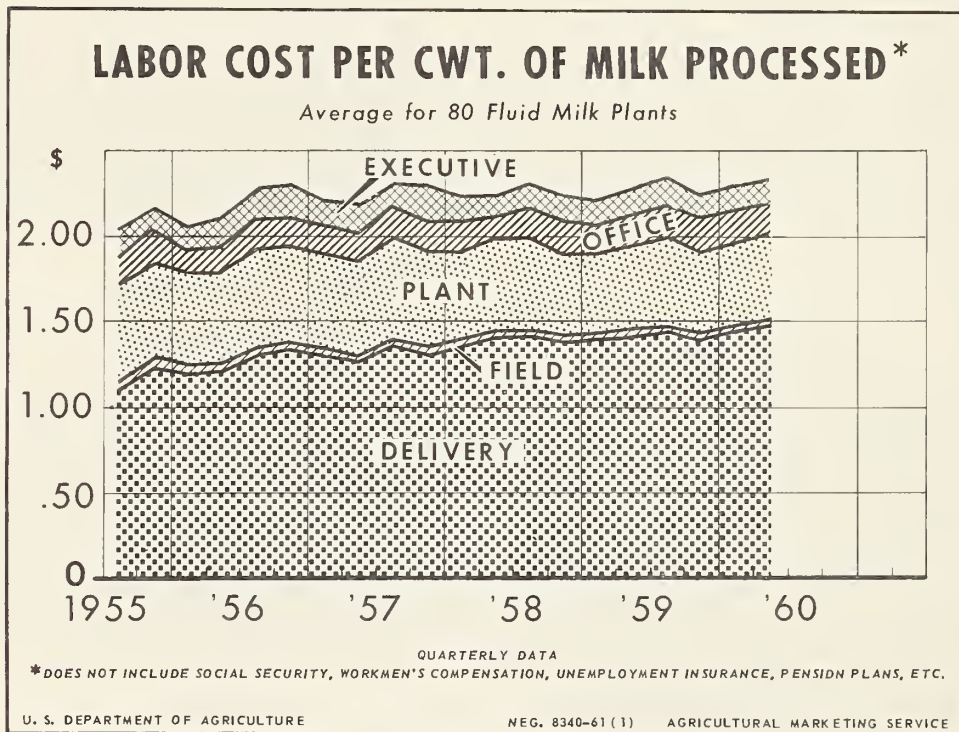


Figure 4

26 percent; office employees, 22 percent; and executives, 11 percent (fig. 5). However, for fieldmen, plant employees, and executives, increased efficiency has more than offset increases in hourly earnings, and personnel cost per 100 pounds of milk processed has decreased.

For fieldmen the minutes of time per 100 pounds decreased from about 1.8 to about 1.1--a drop of nearly 40 percent. For plant employees, the minutes decreased from about 23 to about 15--a drop of nearly 35 percent. For executives the minutes decreased from 2.0 to 1.6--a drop of 25 percent. As a result, despite the increases in hourly earnings, personnel costs per 100 pounds of milk processed have decreased some 18 percent for fieldmen, 10 percent for plant employees, and 12 percent for executives.

The increases in earnings have not been offset by efficiency for deliverymen. While earnings were increasing by 26 percent, efficiency increased by only 4 percent. Consequently, delivery labor costs per 100 pounds increased by 21 percent. Delivery labor costs were 54 percent of total labor costs in July 1955-June 1956; they were 62 percent of the total in July 1959-June 1960.

Office labor per 100 pounds dropped from 6.4 minutes to 6.0 minutes, an efficiency gain of about 7 percent. This was not enough to offset wage rate increases: Costs per 100 pounds increased about 20 percent.

Considerably more information would be needed to determine the factors involved in these shifts in labor costs. However, some probable factors may be mentioned. The reduction in costs for fieldmen probably results from the shift away from small-scale, part-time dairy farming to large-scale commercial dairy farming. Even though the milk supply has increased, the number of dairy farmers has decreased substantially; consequently, fieldmen have fewer dairy farms to supervise. Lower costs for plant labor are the product of modern equipment with continuous-flow processing, cleaning-in-place, and other efficiency factors. The only apparent factor in lower executive costs is that salary increases have not kept up with increases in volume of product processed.

The increase in costs for deliverymen is probably the result of the system of payment. Deliverymen are commonly paid a basic wage plus a bonus based upon units of product delivered. Any increase in either the basic wage or payment per unit results in increased cost. The delivery operation does not lend itself to increases in the amount of milk that can be delivered, per deliveryman, on either home delivery or wholesale delivery. Most of the reduction of 4 percent in delivery time per 100 pounds apparently resulted from the shift from home delivery to wholesale delivery.

Little information is available about efficiency factors for office labor. The reduction of 7 percent in labor time may have resulted from mechanization of office procedures or the shift from home delivery to wholesale delivery (fewer accounts). In at least some instances, mechanization has not reduced the office labor staff but rather has provided additional information needed for improved operations.

OFFICIAL BUSINESS

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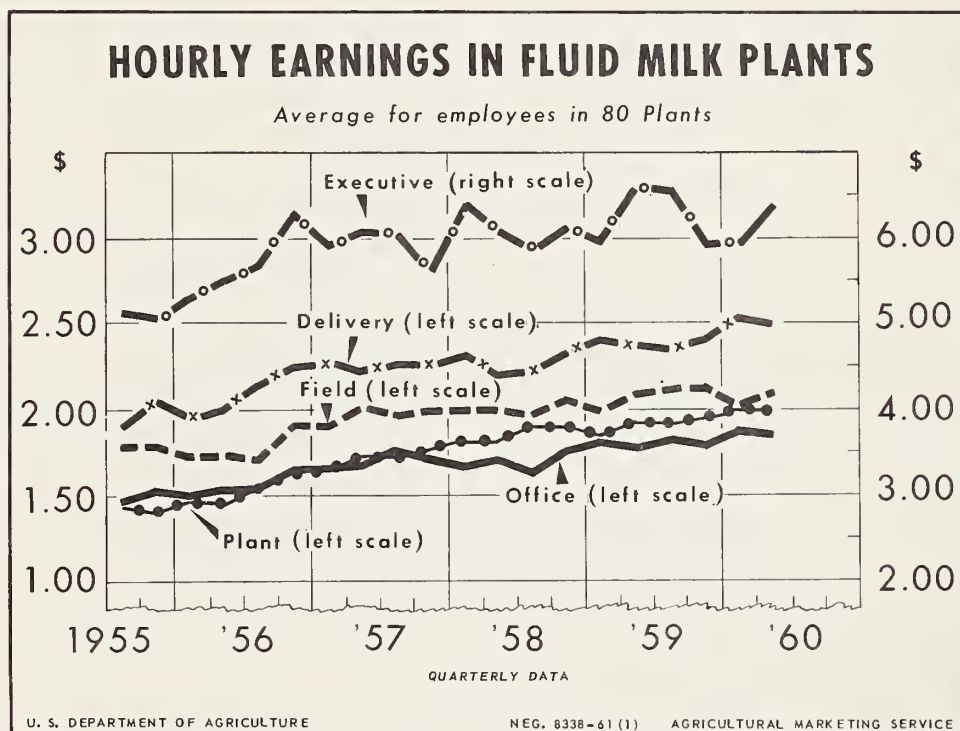


Figure 5